

BAY STATE GAS COMPANY) D.T.E. 01-107
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AllEnergy stands by all arguments set forth in its initial brief and will only respond to issues in the initial brief of Bay State that are raised for the first time or

warrant further discussion. Silence on any particular issue in either AllEnergy's initial brief or this reply brief should not be viewed as acceptance of any position contrary to AllEnergy's. This reply brief will discuss the following topics:

- ?? As it did in its initial filing, on brief the Company continues to wear blinders; it focuses on a single element of the terms of the Massachusetts Gas Unbundling Collaborative's (the "Collaborative") settlement regarding transportation model terms and conditions (the "Settlement" and the "Model Terms," respectively), disregarding both the whole Settlement proposal and the Department's finding relating thereto.
- ?? Bay State, in its initial brief, also chooses to ignore basic ratemaking principles.
- ?? On brief, the Company misses the distinction between (1) electronic data interchange ("EDI") as a mechanism to implement the electronic business transaction rules ("EBT") and (2) a web-based system as another mechanism to implement the EBT rules.
- ?? The Company balks at the concept of implementing service quality indices ("SQI") to ensure an appropriate level of service quality to Suppliers, and ultimately to end-use consumers.

II. RESPONSE

A. Supplier Fees Have Yet To Receive Full Department Approval.

Bay State persists in ignoring both the Settlement's language pertaining to Supplier fees and the Department's response. The two points relevant to this discussion are:

1. Yes, the Model Terms and Bay States compliance tariff do contain the language cited by Bay State: "the Company may charge a fee to the Supplier for providing this billing service as approved by the M.D.T.E." Company Brief, p. 6 (citations omitted).

2. With regard to Supplier fees, the Settlement states: “With regard to Appendix A [which contains the above-quoted language], the Settling Parties agree that action is required by the Department prior to further discussion and action by the Collaborative participants.” On this same subject, the Department stated: “The Settling Parties maintain that fees and charges for billing services or for customer information, enrollment, and aggregation services cannot be established until the provisions for such services have been approved by the Department and that suppliers’ fees are beyond the scope of the Model T&Cs... Finally, regarding Appendix A, Schedule of Administrative Fees and Charges, the Settling Parties have agreed that action is required by the Department prior to further discussion and action by the Collaborative.” D.T.E. 98-32-A, pp. 5, 10 (1998) (emphasis added).

Bay State clings to point one as the sole justification for its proposal. Company Brief, pp. 2-3. Bay State refuses to acknowledge the second point and its policy implications. If the intent of the Settlement was to allow Supplier fees, without further action, why is it that the Company has waited more than a year to make this filing? Why, too, have no other LDCs made similar “compliance filings” in the intervening months?

B. Ratemaking Issues.

The Department has the responsibility to establish a utility company’s rates and charges that are just and reasonable. In doing so, the Department examines whether, based on the record evidence, the proponent has established that the costs, underlying the proposed changes, are known and measurable. See AllEnergy Brief, pp. 5-6 (citations omitted). In fulfilling its obligation, the Department relies on the following well-established process.

Revenue requirement. In the usual situation, a utility petitioning the Department for new or changed rates and charges files a revenue requirement, based on an historic test year cost of service, adjusted for known and measurable changes. The cost of service, together with the normalized revenue filing determines whether a revenue deficiency exists. This process ensures that the Department and the parties to the

proceeding are accorded the opportunity to investigate and review all aspects of a Company's operations and cost of service for offsetting efficiencies or savings to mitigate proposed costs and prevent double recovery of costs.

Cost allocation. Once the utility's revenue requirement has been established, the underlying costs are allocated to the company's various customer classes based on an allocated cost of service study. This step ensures that the various customer classes bear their share of costs.

Rates established. Following cost allocation, rates are then developed to recover the revenue requirement from the various customer classes and promote the Department's goals of: fairness, efficiency, continuity, stability, and equity.

Beginning with the standard of review, Bay State strays from this process. Throughout its brief, Bay State does acknowledge the "just and reasonable" standard. However, Bay State also advances several alternative standards as grounds for approval of its tariff:

- ?? "fair to suppliers due to [their] modest pricing" (Company Brief, p. 16);
- ?? "generally cost-based, fair and appropriate" (Exh. BSG-1, p. 2);
- ?? "consistent with Company's previously approved and current T&Cs" (Id., p. 5).

Bay State's support for the revenue requirement associated with the Supplier fees boils down to a series of "because we said so's" and "because we have several years experience in providing these services." Bay State repeats that its proposed costs are incremental, yet it has provided no evidence to substantiate its assertion. To make the requisite showing that costs are incremental, one would need to demonstrate that the costs proposed to be recovered are greater than those underlying the existing revenue

requirement. One would also need to prove that a revenue deficiency exists. As discussed above, the usual practice is to establish this in the context of a full cost of service rate proceeding. As the record in this proceeding stands, it is not known if Bay State's total billing costs and information technology costs have increased or decreased, and if so, by how much. The question remains: "What are these costs incremental to?" The Company's ipse dixit approach does not provide the Department with record evidence upon which it may approve the proposed charges.

Yes, AllEnergy advocates that the revenue requirement for the proposed tariffed services be determined through a base rate proceeding. AllEnergy, contrary to the Company's assertion, has not "conveniently forgotten that basic cost causation principles dictate that suppliers should pay for the benefits they receive from the Company." Company Brief, p. 20. AllEnergy, as a general policy matter, questions whether the costs associated with implementing the competitive natural gas market should be borne by all beneficiaries (e.g., Suppliers, consumers). If the answer to this question is "no," then AllEnergy only asks that its share of these costs be determined in the context of the Department's established ratemaking framework, not outside of it.

The Company has declared the DOER's and AllEnergy's positions on single-issue rate cases to be erroneous. Company Brief, pp. 18-19. In discussing this topic, Bay State highlights two examples of single-issue rate proceedings to the exclusion of the broader issue. Specifically, the Company asserts that for a rate case to be a single-issue rate case it must be either (1) one in which a new rate class is established, or (2) one in which an increase in the revenue requirement of an existing rate class is proposed. Id., p. 19. AllEnergy believes that a request to change a single cost component of a utility's revenue

requirement and to initiate new rates, outside of the protections afforded by a general base rate proceeding, constitutes a single-issue rate case. This is exactly what Bay State's filing seeks to do.

Bay State has still left unanswered the basic questions regarding its proposed switching fee (i.e., what percentage is allocated to the deterrent function, what percentage is allocated to the administrative function, and what is the cost justification for both functions). AllEnergy Brief, pp. 8-10. As to the ratemaking treatment to be accorded the revenues flowing from the \$10.00 per switch fee, Bay State states:

Finally, contrary to AllEnergy's assertion that the Company proposes to keep the revenues from the switching fee ..., the Company in fact proposes to use the revenues to reduce the Company's cost of service in a general rate case, thereby benefiting customers.

Company Brief, p. 14. True, but until the Company chooses to file a general rate case, the non-cost-based money collected from this questionable fee will go into the Company's pockets. Further, the decision as to whether and when to file a rate case rests mainly in the Company's control. At best, the Company's position is disingenuous and specious.

C. Service Quality Indices.

Bay State urges the Department to reject AllEnergy's proposal to subject its mandatory supplier services to an SQI. Company Brief, pp. 20-21. In response, AllEnergy asserts that a utility, providing monopoly services, should be subject to SQIs regardless of the size of the recipient. Bay State argues that since AllEnergy is a sophisticated business entity that engages in transactions for profit, that it should not receive the same consumer protections as residential customers. Id. In Incentive Ratemaking, D.P.U. 94-158 (1995) and Guidelines for Service Quality Standards, D.T.E.

99-84 (2000), the Department makes no distinctions between service quality protections available to residential customers and the more sophisticated commercial and industrial customer base. The Department's intent in providing SQIs is to prevent LDC monopoly providers from cutting costs to meet profit objectives at the expense of service quality to customers receiving monopoly services. NYNEX, D.P.U. 94-50, p. 235 (1994).

Suppliers are captive monopoly customers of the LDC for billing data, pool administration, and switching and termination of customers. As captive customers, Suppliers concerns with respect to service quality and the potential for service degradation are no different than an LDC's "sophisticated business entity" distribution customers. SQIs, by helping to ensure that conduct giving rise to complaints does not happen in the first place, alleviate the need for LDCs, customers, and the Department to expend resources litigating complaints.

Degradation of service quality to Suppliers has a direct impact on retail access customers. For example, if Suppliers do not receive accurate and timely billing data from the LDC, it harms the customer. If customer accounts are not switched into and out of a Supplier's pool on an accurate and timely basis, the customer is harmed. Applying SQIs to Supplier services will have a direct, positive impact on customers.

D. Electronic Business Transaction Rules.

On brief, Bay State took issue with AllEnergy's request for the functionality embodied in the EBT Report. Company Brief, pp. 22-24. AllEnergy is of the opinion that Bay State should be ordered to augment or upgrade its existing website to provide the specific transactions determined by the Collaborative in the EBT report. Bay State characterizes the EBT report as "...no more than a first draft, [and] far from complete...."

Id., p. 23. This characterization misrepresents the completeness of the report and denigrates the efforts of all those who devoted many hours to provide a complete set of guidelines for implementation of EBT and EDI. Further, this “first draft” was based upon the Massachusetts electric industry’s business transaction rules that have been in place for a number of years. If the report is “far from complete,” then why have two LDCs been able to rely on it to implement EBT and EDI on their own systems?

Bay State also misses AllEnergy’s point. AllEnergy is not asking for Bay State to implement EDI. AllEnergy is asking Bay State to provide the essential elements of the EBT rules to effectively and efficiently conduct business on its distribution system. AllEnergy believes that the absence of these elements directly relates to the level of costs Bay State experiences to administer its retail access program. If Bay State were to provide separate add and drop transactions that included confirmation of start and stop dates, and reasons for customer drops not initiated by Suppliers, most of the costly hand holding that Bay State is providing Suppliers would go away. See AllEnergy Brief, p. 11.

Bay State does not contest that it does not provide these transactions. Exh. AE-21. If the electric industry and the rest of the gas industry can agree that they are needed in order to administer retail access programs, why can’t Bay State?

III. CONCLUSION

WHEREFORE, for good cause shown, AllEnergy respectfully requests that the Department grant the relief as set forth in its initial brief.

Respectfully submitted,

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